

CHAPTER VII

PRIVATE CONSUMPTION AND SAVING

1. MAIN DEVELOPMENTS¹

Throughout the year 1975, as in 1974, private consumption was subject to substantial fluctuations. Average per capita real consumption in 1975 was 3 percent lower than in 1974.

The drop in average real per capita consumption was a continuation of the trend that began immediately after the Yom Kippur War: from a per capita growth of 10 percent in the first 9 months of 1973 (as against the corresponding period in 1972), there was a slowdown to a per capita growth of 4.5 percent in 1974. The quarterly data for real consumption show that the transition from a continuous growth (excluding the war) to a real decline had already taken place in mid-1974: in the first half of 1974 a growth in consumption was registered, but this in essence offset the decline during the war period. In the second half of 1974 there already was a downward trend in private consumption, which continued into the first quarter of 1975. During the following three-quarters of the year an upward trend in real consumption was again noticeable, and the average real consumption in 1975 almost reached the pre-Yom Kippur War level.

1. The discussion of the quarterly data of consumption relates in part to seasonally adjusted data and in part to source data. The reason being that for the past three years there exists a problem of identifying the seasonal pattern of part of the consumption components. These years are marked out by irregular occurrences falling in their last quarter: the war towards the end of 1973, the economic measures of November 1974, and the devaluation towards the end of 1975. Because of the strong influence of these events, which fell by chance in the last quarter of three successive years, it is not possible to isolate the seasonal factor in some of the consumption components.

Since it is not possible to remove seasonality from the item of durables and from the item "clothing, footwear, personal effects," the discussion of these items relates to source data.

The removal of seasonality from total private consumption is arrived at by means of direct deduction from the series and not a summation of the seasonally adjusted components.

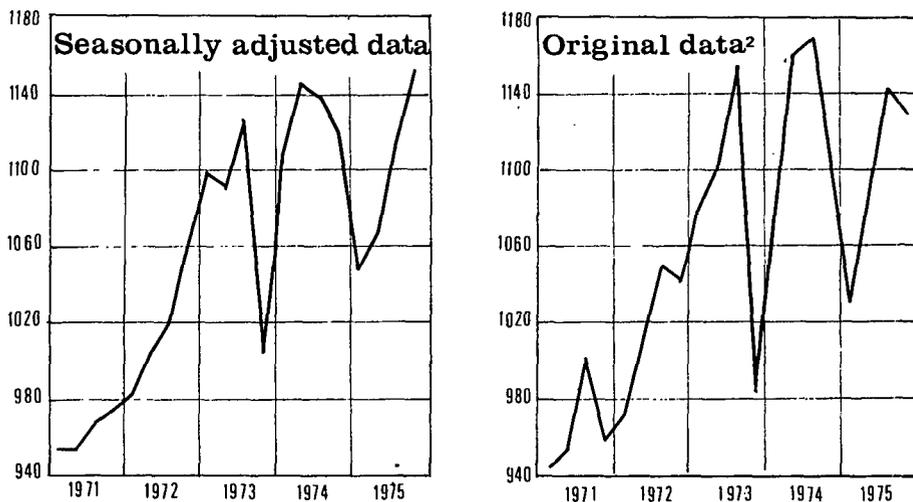
The general downward trend of the per capita real consumption is consistent with the decline in per capita real income. In 1974 per capita real income was still rising, but at a slow rate compared to the previous two years. In 1975 real income dropped. The sharp fluctuations in consumption over the two years were influenced by the government's policy measures, which included a reduction in subsidies, devaluations, and administrative restrictions on imports, and were accompanied by surges in purchasing in anticipation of additional governmental steps.

The decline in per capita private consumption covered the majority of principal consumer items, with per capita purchases of durables dropping prominently by 20 percent. The per capita real consumption of food remained at last year's level, and that of household fuel and light fell by 1.5 percent. Per capita consumption of other items (industrial products, excluding durables, clothing, footwear, and personal items) fell by 16 percent, and that of services, excluding housing and nonprofit institutions by one percent. A one percent per capita increase was registered in consumption of clothing, footwear, and personal effects.

Disposable income fell at a greater rate than that of consumption, which amounts to a drop in real savings and a decline in the rate of savings out of disposable income. The decline in the rate of savings, like the fall in per capita consumption was a continuation of the 1974 trend, although in 1974 the drop in the rate of savings took place during a period of growth in real income, whereas in 1975 - while real income was declining.

2. See footnote 1.

Figure VII-1
REAL PER CAPITA CONSUMPTION,
1971-75
(IL, at 1970 prices)



SOURCE: Central Bureau of Statistics.

On account of the rapid rise in prices in the past two years, the value of unlinked households' debt fell, thus also contributing to a rise in consumption and a decline in the rate of savings. There was no significant change in the total import component in 1975 as against 1974. (The total import component is defined as the ratio of direct and indirect imports for private consumption to total consumption). This is the result of a fall in direct imports for private consumption and an offsetting increase in the indirect import component of private consumption.

2. DEVELOPMENTS IN PRIVATE CONSUMPTION

The trend of a continuous rise in real private consumption, which characterized the economy during the past few years, stopped in 1974 and in 1975. During these years real private consumption was subject to strong fluctuations (see Figure VII-1), which added up to an average consumption in 1975 at a level similar to that prior to the war.

Table VII-1
PRIVATE CONSUMPTION AND INCOME, 1966-75

	Average							
	1966- 1967	1968- 1969	1970	1971	1972	1973	1974	1975
Total consumption at current prices (IL million)	7,846	9,698	11,324	13,283	16,683	21,839	32,518	45,372
	Percent annual increase							
Consumption	2	11	3	5	9	9.5	7.5	-0.5
Consumption per capita	-1	7.5	0.5	1.5	5.5	6	4.5	-3
Disposable income per capita from domestic sources	1	8.5	5	8	11	7.5	3	-5.5
Disposable income per capita from domestic sources, less net compulsory loans	1.5	9.5	1.5	5	12	8	2	-3.5
Disposable income per capita from all sources	0.5	9	3.5	10	12	4.5	0.5	-6
Disposable income per capita from all sources, less net compulsory loans	0.5	10	3	7	13	4.5	-0.5	-3.5

NOTE: The methods of estimation were slightly revised in 1968.

SOURCE: Central Bureau of Statistics.

The principal factors which explain the development of real private consumption in 1974 and 1975 are real disposable income and the government's economic policy, which affected consumption even beyond its influence through the changes in real income. While the general trend of the development of real private consumption in the long run corresponds to that of real income, the explanation of the violent fluctuations in the short run lies in the government's economic policy and the overreaction of the public. The economic measures of the past two years, which took the form of devaluations and cuts in subsidies

against a background of a general slackening of economic activity, brought about drastic rises in prices and a sense of uncertainty in the consumer regarding the future. In general, the government's economic measures did not take the public by surprise, and the rumors that preceded them generated waves of purchasing, mainly of durables, and hoarding of basic food stuffs.

Real private disposable income in 1975 was at the 1973 level, and the real per capita disposable income in 1975 was close to that of 1972.

The average price level in 1975 was 40 percent higher than that of 1974, while during 1975 prices rose by only 23 percent. The faster rate of increase in the average price level was caused by the fact that a part of the substantial price increases during 1974 (an increase of 56 percent) occurred towards the end of 1974.

The development of private consumption during the past two years and the principal factors that influenced it will now be described. During the first quarter of 1974 consumption went up considerably along with a big rise in prices. The price rise was chiefly the result of an increase in the prices of basic consumer goods as well as fuel and electricity. The upswing in consumption during this period was apparently a reaction to the restrained consumption during the war. During the first quarter of 1974, cost-of-living allowance was paid twice.

Table VII-2
PRIVATE CONSUMPTION AND PRICE CHANGES, QUARTERLY, 1974-75
(IL million)

	Private consumption at 1970 prices (original data)	Percent increase or decrease (-) on previous quarter		Inflation rate (Change in consumption prices compared to previous quarter) ^b
		Original data	Seasonally adjusted data ^a	
1974 I	3,650	11.5	11	12.7
II	3,910	7.1	4	8.9
III	3,960	1.3	0	5.9
IV	3,730	-5.8	-1	13.8
1975 I	3,535	-5.2	-5	13.5
II	3,726	5.4	2	5.0
III	3,956	6.2	5	1.4
IV	3,944	-0.3	4	9.9

^a See note 1 at beginning of chapter.

^b Consumer prices are expressed by the price index derived from private consumption. This index reflects the same trends as does the Consumer Price Index but its definition is different: In the latter prices of products and services are weighted by the quantities consumed in the base period ("constant basket" while in the derived index for private consumption prices of each period are weighted by the corresponding quantities consumed. In addition there is a slight difference between the "basket" serving for the computation of the consumer price index and the basket comprising private consumption.

SOURCE: Central Bureau of Statistics.

During the second quarter of 1974, consumption continued to rise; in part this was still an extended compensation for the decline due to the war, and in part this was probably a consequence of stockpiling of durables following rumors of devaluation.

In November 1974, a "new economic policy" was announced, whose main points were a devaluation by over 40 percent, an increase in the prices of basic foodstuffs, household fuel, electricity and a restriction on the import of luxury items for a period of 6 months. As a result of this, consumer prices rose in November-December by 20 percent. In the quarterly consumption deflator this was expressed as a price increase of 13.8 percent in the last quarter of 1974, and 13.5 percent in the first quarter of 1975. These increases brought about a decline in consumption of 5.8 percent and of 5.2 percent respectively.

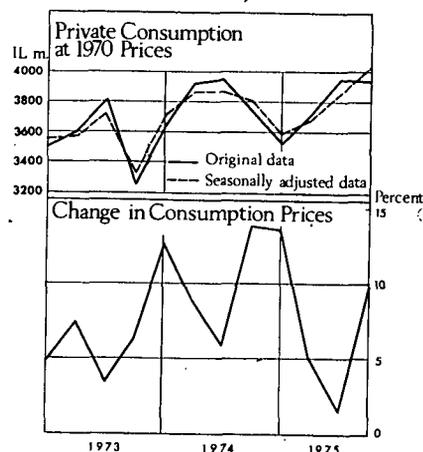
In the second and third quarters of 1975 the price rises were milder. Three small devaluations were carried out as part of the policy of "creeping devaluation" (in June, August, and September) and the ban on luxury imports was lifted. On the incomes' side, income tax reform was started and was followed by an agreement to maintain the net income. The cumulative effect of these factors was an increase in consumption.

The first quarter of 1975 saw an accelerated rate of increase in prices - about 10 percent - following the government's economic measures at the end of September: a 10 percent devaluation, an increase in the purchase tax, and a rise in the price of fuel. However, at the same time, there was also a rise in incomes with the redemption of Compulsory (Savings) Loans to the tune of 1L655 million, and this contributed to an increase in consumption. Joined together, these factors brought about a 0.3 percent fall in private consumption or an increase of about 4 percent when seasonally adjusted.

One can sum up and say that the government's economic policy affected consumption principally through the accelerated price rises, and there exists a correspondence between changes in real consumption and changes in the rate of price increases (see Table VII-2, Figure VII-2).

Exogenous changes in the rate of price increases can be interpreted by the consumer as a fall in his real income; he will accordingly adjust his consumption to his reduced income. However the unprecedented price increase of end-1974 created expectations of a

Figure VII-2
PRIVATE CONSUMPTION AND
CHANGE IN CONSUMPTION
PRICES, 1973-75
(IL million)



SOURCE: Central Bureau of Statistics.

continuation of government's stringent policy, and accordingly, it appears that it influenced a decline in consumption beyond that required by the actual decline in real income. The subsequent weakening of these expectations is reflected, *inter alia*, in a renewed increase in private consumption. The drop in per capita real consumption registered in 1975 was very marked in comparison with the past (see Table VII-1), but it has to be viewed in the correct perspective, i.e., against a background of its great increase previously. In 1972 per capita private consumption was up 5.5 percent, and in the first three-quarters of 1973 - 10 percent, which are high rates for the Israeli economy.

3. COMPOSITION OF PRIVATE CONSUMPTION

The 3 percent drop in the per capita average private consumption in 1975 is composed of a 6 percent decline in the per capita consumption of goods and a 1.5 percent increase in the per capita consumption of services (the latter arises from an increase in the consumption of dwelling and non-profit institution services, while the per capita consumption of other services went down).

The development throughout the year of the various components of consumption is similar to the development of total private consumption: the drop that started in the second half of 1974 continued into the first quarter of 1975, and during the last quarter of 1975 there was a marked increase in most of the components (Figure VII-3).

Besides the decline in total consumption in 1975, there was also a change in the composition of consumption comprising an increase in the weight of food and a decrease in the weight of durables, a phenomenon that appears to characterize periods of declining real income.

Table VII-3
COMPOSITION OF PRIVATE CONSUMPTION, 1960-75

	Average			1970	1971	1972	1973	1974	1975
	1960-1965	1966-1967	1968-1969						
Food, beverages, tobacco	32	30	29	29	28	26	26 ^a	25	28
Durable goods	9	7	11	10	10	10	11	12	10
Other goods	16	17	16	16	16	16	16	17	16
Housing	13	15	14	15	15	16	18	18	18
Nonprofit institution services	9	10	10	10	10	10	10	10	10
Other services	20	22	21	21	22	21	19	18	18
Total consumption of goods and services ^a	100	100	100	100	100	100	100	100	100

^a Excluding changes in inventories, net consumption of nonresidents, and East Jerusalem.
SOURCE: Central Bureau of Statistics.

Table VII-4
PRIVATE CONSUMPTION, BY MAJOR COMPONENT, 1973-75
(IL million, at current prices)

	Weight in total consumption in 1975 (%)	IL million			Percent annual increase				
		1973	1974	1975	1975 compared to 1974		1975 compared to 1973		
					Quantity	Price	Quantity	Price	
Goods									
Food, beverages, tobacco	27.6	5,792	8,410	12,728	2	48	3	113	
Household, fuel, light	3.8	515	1,017	1,753	1	71	3	230	
Clothing, footwear, personal effects	8.4	2,059	2,936	3,875	3	28	13	67	
Durable goods	9.8	2,572	3,832	4,541	-19	46	-10	96	
Other industrial goods	4.1	1,023	1,598	1,888	-14	38	-6	96	
Total goods	55.8	11,961	17,793	24,785	-4	45	1.5	104	
Services									
By nonprofit institutions	9.8	2,336	3,263	5,504	4	32	7	80	
Housing	18.0	3,955	6,001	8,311	7	29	15	83	
Other services and misc.	18.4	4,322	6,061	8,510	1	39	7	84	
Total services and misc.	46.2	10,623	15,325	21,325	4	34	10	83	
Total consumption of goods and services^a	100.0	22,584	33,118	46,110	-0.5	40	5	94	

^a The difference between these data and total consumption is that the former also includes inventory changes, net consumption of nonresidents, but excludes East Jerusalem.

SOURCE: Central Bureau of Statistics.

An interesting aspect is that the large increases in prices caused only small changes in the quantities consumed. The reason is that these price increases were accompanied by parallel increases in income, mainly as a result of the adjustment mechanism compensating for price rises.

In this section the developments in the composition of consumption in 1975, vis-a-vis 1974 will be reviewed, but the two years 1974 and 1975 will be dealt with, also, as constituting one period. The reasons for this are the wide variances in consumption trends, in quantities and in prices, during the past two years, as against the previous period, and the occurrence of these changes at the end of 1974 and at the beginning of 1975, thus turning the two quarters into one period for our purposes.

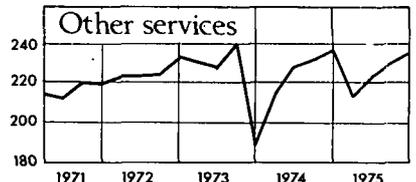
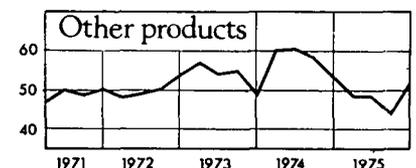
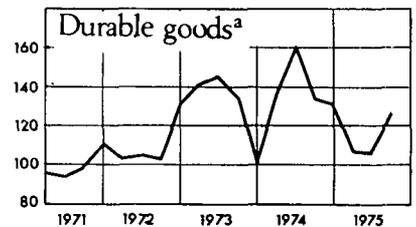
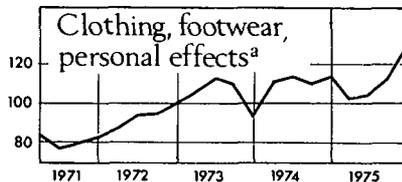
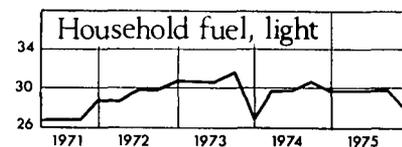
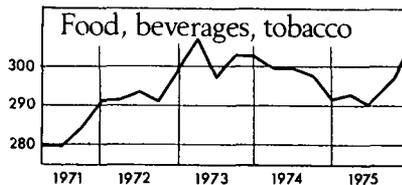
In comparing the average of 1975 with the average of 1973, the steep price rises of fuel and lighting stand out (3 times and more); they are followed by food, beverages, and tobacco (more than twice). In those two items the per capita consumption fell by 2 percent.

There was a particularly sharp drop in the consumption of durables and other industrial products, while relative prices remained stable. Actual increases were registered in consumption of services, principally in housing services and in the consumption of

"clothing, footwear, and personal effects." In these items there is a marked decline in relative prices.

(a) Food

The per capita food consumption in 1975 was down 0.3 percent, while prices increased by 48 percent, subsequent to a decline in 1974 of 1.7 percent and a price rise of 43 percent. During the course of the year there was an upward trend, after the large drop at the end of 1974.



SOURCE: Central Bureau of Statistics.
^a Original data; see note 1 in text.

Table VII-5 shows the changes in the consumption of different foodstuffs and allows a comparison to be made between the changes in the relative and absolute prices of each product and the changes in the quantities consumed. A comparison between average 1975 and average 1973 shows that the per capita consumption of controlled commodities declined for most items in this category as a result of the cut in their subsidies; the per capita consumption of edible oils fell by 5 percent, while their prices in 1975 were 3 times those in 1973. Sugar too became three times more expensive in these two years, and its per capita consumption fell by 25 percent.³

The per capita consumption of flour and flour products fell while prices increased by 16 percent. In this item also, many of the prices are controlled by the government. Milk

3. The measured consumption of sugar in 1973 is biased upwards as a result of large-scale purchases by residents of the administered territories, and therefore there is also an upward bias of the rate at which this consumption fell.

Table VII-5
CHANGES IN REAL CONSUMPTION OF SELECTED FOODSTUFFS, 1973-75
 (percentages; at current prices)

	Weight in total food consumption			Increase of 1975 over 1974			Increase of 1975 over 1973		
	1973	1974	1974	Quantity	Price	Relative price ^a	Quantity	Price	Relative price ^a
Flour and flour products	10	11	12	3	54	5	1	165	23
Meat and meat products	29	28	25	6	28	-13	2	86	-14
Fish and fish products	4	4	4	0	43	-3	3	117	1
Eggs	4	5	5	5	43	-3	13	136	9
Milk and milk products	9	10	11	6	53	4	9	163	22
Edible oils and fats	3	3	4	0	87	28	0	221	49
Fresh fruits	14	12	12	-1	57	7	4	87	-14
Fresh vegetables	11	11	10	5	34	-9	10	80	-17
Sugar and sugar products	7	7	8	-14	96	33	-21	222	49
Tea, coffee, cocoa	3	3	2	-15	36	-8	-7	51	-30
Processed fruit and vegetables and misc.	6	6	6	6	50	2	7	122	3
Total	100	100	100^b	2.1	47	—	2.3	115.7	—

^a The change in the price of each item divided by the change in the price of total foodstuffs.

^b Because figures were rounded off they do not add up to 100.

SOURCE: Central Bureau of Statistics.

and milk products are also mainly government-controlled items. Here, by contrast, there was a marked increase in per capita consumption in spite of the fact that the prices rose considerably (163 percent). The reason for this lies, apparently, in the absence of substitutes, and in the fact that though the prices rose relatively, these products are still cheaper than other protein foodstuffs. Therefore, during a period of declining income the consumption of dairy products will grow.

The per capita consumption of meat fell, and of the total expenditure on food, the percentage expenditure on meat fell. The decline in the per capita consumption of meat in spite of the drop in its relative price is not surprising, since meat is relatively expensive, and the percentage of expenditure on meat of the total expenditure on food is very high (25 percent), so that a reduction in the consumption of meat brings about a considerable saving in expenditure; when incomes fall, the consumption of meat also falls. The fall in per capita consumption during 1973 to 1975 is made up of a sharp fall in 1974 and a rise in 1975.⁴ In 1974 the consumption of frozen meat fell and the consumption of poultry meat rose, as a result of the former becoming relatively more expensive. In 1975 the trend was reversed - frozen meat was relatively cheaper and its consumption increased.

4. It is likely that the estimate for 1974 was lower than what it should have been (see Bank of Israel Annual Report for 1974, page 180), and that, in fact, there is a more continuous trend between the years.

The per capita consumption of eggs during these two years was up 8 percent, possibly as a substitute for meat whose per capita consumption fell, and this in spite of a 9 percent rise in the price of eggs.

The per capita consumption of fresh fruit and vegetables rose in 1974, a year in which the yield was large and their prices low. In 1975 the consumption of vegetables rose, while their prices fell relatively, and less fruit was consumed as its relative price went up.

(b) *Beverages and Tobacco*

The per capita consumption of beverages fell by 1.5 percent in 1973, while their prices rose by 75 percent. There was a rise in the per capita consumption of soft drinks of 8 percent and a drop in that of hard liquors by 9 percent. (The fall in the consumption of hard liquors is explained by the high income elasticity of demand for them).

The per capita consumption of tobacco in 1975 was stable vis-a-vis 1974, and its relative price did not change, following a per capita rise in consumption of 6 percent in 1974 and 14 percent in 1973.

(c) *Household Fuel and Light*

The per capita consumption of household fuel and light was down 1.5 percent in 1975 after a fall of 0.5 percent in 1974. These declines in consumption arose from the steep increases in the prices of household fuel and light - 93 percent in 1974 and 71 percent in 1975. The quarterly data shows some increase in the first half of 1974 and a fall in the second half of 1974 and during the whole of 1975. By the end of 1975 the per capita consumption of household fuel and light was considerably lower than what it was before the Yom Kippur War.

(d) *Clothing, Footwear, and Personal Effects*

Of all the industrial products, this is the sole item whose per capita consumption rose in 1975. Also its price rise was milder than that of the other components. Over the year there was a sharp decline in the first quarter of the year and a rise in the remaining three quarters. Amongst the general items in this category, there was a fall in the consumption of footwear, while the consumption of clothing rose, and there was a great increase in the consumption of personal effects (there was a marked increase in purchases of watches and jewelry).

(e) *Durable Goods*

The purchase of durable goods was down 19 percent in real terms in 1975, following a

real rise of 11 percent in 1974 and 21 percent in 1973. The turning point in the purchase of these items occurred in the second half of 1974, following a peak in the second quarter of 1974 (see Figure VII-3). In the second half of 1974 and in the first half of 1975, the purchases fell considerably, and in the last quarter of 1975 they rose again.⁵

The fall in the purchases of durable goods covered its three components but the intensity of the decline varied from one group to the other. There was a real decline of 3 percent in furniture, 17 percent in equipment, and a marked fall of 45 percent in the purchase of private vehicles.

A fall in the purchase of durables characterizes periods in which incomes fall, since the 'consumption' of these durables is in effect the consumption of services of all durable stocks at the disposal of the domestic economy and the purchases in a particular year comprise only a small percentage of this stock. It is possible to postpone purchases of durables with greater ease than those of items for current consumption, and the foregoing of consumption which arises from a fall in the purchase of durables is comparatively small. The considerable stockpiling of durables over the previous years (a real increase of 15 percent in 1972 purchases and of 21 percent in 1973) enabled a cutting down in purchases in 1974 and 1975 without reducing to any great extent the level of service rendered by these products. A computation of durables stock shows an increase of 12 percent in 1974 and 10 percent in 1975, so that the consumption of their services rose in 1974 and in 1975 (Table VII-6).

An additional characteristic of durables is the high price of the durable unit, and this is an extra reason for the fall in their purchases during periods of dwindling income. One can thus add the great increase in the prices of these commodities, especially the prices of cars, which rose by 75 percent.

An additional cause of the drop in durables purchases in 1974 and 1975 is the large decline in the number of immigrants. As a result of the decline in immigration there was a contraction in their durable imports - a real fall of 36 percent in 1974 and 57 percent in 1975. In 1975 there was a drop in the marriage rate, following a rise in 1974; this also caused a contraction in the purchases of household durables by newly-wed couples. In addition, administrative restrictions on imports were imposed in November 1974: the import of 30 luxury items was banned for a period of 6 months. The ban was lifted in May 1975.

An additional explanation for the decline in car purchases lies in the three-fold

5. Part of the increase in the last quarter of 1975 is a seasonal increase but as is indicated in the footnote at the beginning of the chapter, we have not been able to remove seasonality from this series.

Table VII-6
CHANGES IN REAL CONSUMPTION OF CONSUMER DURABLES, 1963-75
 (percentages)

	Weight in 1975 prices	Annual increase								
		Average			1970	1971	1972	1973	1974	1975
		1963- 1965	1966- 1967	1968- 1969						
Purchases										
Furniture	37	16	-14	29	7	0	17	15	13	-3
Household equipment	51	14	-11	76	-22	3	5	22	13	-17
Personal transportation equipment	12	25	-16	61	-32	34	42	29	4	-45
Total	100	16	-13	57	-16	6	15	21	11	-19
Services										
Furniture	33	14	12	11	12	10	10	10	10	9
Household equipment	51	15	11	16	18	13	11	12	12	10
Personal transportation equipment	16	32	15	17	15	13	16	18	17	10
Total	100	16	12	14	15	12	11	12	12	10

NOTE: Purchases have been calculated at 1970 prices and consumption of services of the stock of durable goods has been calculated at 1964 prices

SOURCE: Central Bureau of Statistics.

increase in the price of gasoline during 1974 and 1975. Similarly, a decline in equipment purchases can be partially explained by an increase in the price of electricity.

Apparently, the increase in interest rates in 1975 was also instrumental in the drop of durable purchases for they are connected with the granting of credit to the buyer. The increase in interest rates raised the cost of finance obtainable from financial institutions and that of supplier's credit.

(f) *Other Items*

The real consumption of other items fell in 1975 by 14 percent, i.e., 16 percent per capita. The seasonally adjusted data show a continuous drop throughout 1974 and the first three-quarters of 1975, and a rise in the last quarter of 1975. In the majority of the items in this category there was a sharp drop in 1975. The consumption of household maintenance items (which include cleansing materials) fell by 34 percent per capita. (In this item a bias of the real change estimated is possible because of a change to less expensive products, where because of the method of estimation the drop in price is measured as a drop in quantity.) The consumption of cosmetics fell in 1975 by 20 percent per capita, the consumption of books, newspapers, and writing material fell by 22 percent per capita, and the consumption of entertainment services fell by 17 percent per capita. Consumption of medicine rose in 1975 by 10 percent per capita.

(g) *Housing*

The consumption of housing services grew by 7.5 percent in 1975, i.e., 5 percent per capita. This item of consumption is mainly the imputed service as a certain percentage of the housing stock and its change therefore reflects the change in the housing stock. The price of housing in 1975 rose at a slower rate than the prices of total consumption.

(h) *Other Services*

The consumption of these services fell in 1975 by 1 percent per capita, in real terms, and the relative prices fell by 2 percent. Among the items whose per capita consumption fell are prominently: domestic help, private health services, travel and entertainment services (cinema, theater, restaurants, hotels, and other tourist services). Consumption of domestic services (mainly laundries), vehicle maintenance, post and telephone registered a per capita increase.

4. SAVINGS

Developments in income and consumption are reflected in savings. In 1974 real consumption increased at a greater rate than the increase in the real disposable income, so that the rate of savings out of disposable income fell, (a fall of 1-3 percent according to the various definitions of disposable incomes, see Table VII-7). In 1975, both real consumption and real disposable income fell, while the decline in disposable

Table VII-7
PRIVATE SECTOR SAVING, 1971-75
(at current prices)

	1971	1972	1973	1974	1975
Gross saving (IL million) ^a	7,856	11,522	14,512	19,600	25,184
Rate of saving out of disposable income ^b (%)					
From all sources					
Including compulsory loans	30	33	34	33	31
Excluding compulsory loans	26	30	31	30	29
From domestic sources					
Including compulsory loans	37	41	40	38	36
Excluding compulsory loans	34	39	38	35	34
Index of privately built home sales ^c (1971=100)	100	95	75	68	50
Growth in outstanding mortgage bank loans	310	470	690	940	1,630
			Annual increase (IL million)		
Financial saving					
Approved savings schemes			542	1,701	2,187
Provident and pension funds			887	1,505	1,735
Life insurance			80	323	453
Mutual funds			240	1,000	1,870

^a From all sources, including compulsory loans.

^b See notes for Table II-12 above.

^c See Table VIII-8 below

income was greater (percentagewise) than the decline in real consumption. The real savings fell, and there was again a drop in the rate of savings out of disposable income (Table VII-7).

The value of the unlinked household debt fell as a result of the large increase in prices and this contributed to a decline in the rate of savings. The effect of capital is not reflected in disposable income but is expressed in an increase in consumption and thus reduces the rate of savings.

The available data do not permit a separation of private sector's savings into its principal components (financial savings of households, savings via investments in housing, and undistributed profits of firms). Partial information can be gathered from indicators regarding savings in financial assets and indicators from the housing market.

(a) *Savings via the Housing Market*

The sluggishness in the housing market, which characterized 1974, worsened in 1975, and there was a further fall in the demand for homes and in the real investment in housing. Also the rise in apartment prices was lower than the increase in the consumer price index and moderate in comparison with the increase in apartment prices in previous years. The 27 percent growth in mortgage credit in apartment sales and the moderate increase in their prices stands out against the fall.

In 1974 the growth in mortgage credit was even more impressive and exceeded by far the increase in apartment prices, so that the proportion of credit in the financing of housing grew sharply in the past two years.

In spite of an improvement in credit terms, the fall in the demand for apartments continued in 1975, following a further decline in immigration and speculative stockpiling in the previous years. The changes in taxes on apartments also reduced the attraction of buying apartments as an alternative to financial investment.

(b) *Savings in Financial Assets*

The financial savings of households grew in 1975 at a rate equal to the rate of growth in the previous year. The stability in the rate of growth arose from opposite trends in the two halves of the year: an increase in savings during the first six months, and a sharp decline accompanied by changes in its composition, in the second half of the year. The changes in its composition are expressed in the increase in the weight of savings via mutual trust funds (chiefly those whose investment portfolio comprised a large foreign exchange component) and a fall in the weight of pension funds and saving schemes, and a large growth in dissavings in securities.

The chief factor was the public's apprehension regarding the worsening of the terms of financial savings. Rumors of worsening of the terms of bond issues to the public adversely affected the public's direct bond holdings, while favorably influencing indirect holdings via pension funds, savings plans, and mutual funds. In the first half of 1975, the decline in the public's bond-holding ended, but in the second half of the year rumors of the worsening of conditions were spread once again, resulting in large negative saving in securities by the public - a trend that overflowed into institutional savings as well.